



Information Technology Investment Board Finance & Audit Committee

MINUTES

April 11, 2005

Members Present:

Scott Pattison, Chair
Mary Guy Miller
Walter Kucharski

Members Absent:

Jimmy Hazel
Jim McGuirk

ITIB Members Present:

The Honorable Eugene Huang

VITA Staff Present:

Lem Stewart, Commonwealth Chief Information Officer
Austin Matthews
Peggy Ward
Emily Seibert

Call to Order:

Scott Pattison, Chair, called the meeting of the Information Technology Investment Board Finance and Audit Committee to order at 1:08 p.m. Three of the five member committee were present.

Approval of Minutes:

Dr. Mary Guy Miller made a motion that the minutes of the February 1, 2005 meeting be approved. Walter Kucharski seconded the motion. The motion was carried unanimously.

Finance Report

The Finance Report, presented by Austin Matthews, provided information on February 2005 Financial Results, Cash Flow Update, Indirect Costs Analysis, Savings Report, 2004-06 Biennial Budget Amendments Status and Rates for New and Shared Services.

February 2005 financial results:

Austin Matthews reported that there were two primary issues:

- The budget has been adjusted to add \$6.1 million in general funds for start-up costs. General funds were received initially, but with the past action of the 2005 General Assembly, the \$6.1 million must now be repaid over the next two-year period.

- Other funds are on track, with the exception of the internal service fund, which is lagging behind original expectations with the addition of the 90 transitioned agencies. VITA staff is monitoring this closely.

Dr. Miller questioned whether the shortfall arose through reduced need. Mr. Matthews stated that the shortfall is a result of how the budget was developed. With new services, there was no history of what customers would spend. Agencies reported what they were spending over the past several years, and an estimated spending level was developed based on this information. Since the time the budget was developed, there were timing changes in terms of when agencies actually came on board to VITA. He also noted that anecdotally some agencies spent monies before transition to avoid the 5.52% service fee.

Lem Stewart stated that a number of variables affect the timing of IT spending, depending on how agencies are funded, including federal and grant funding. He stated that a late 4th quarter surge in general fund spending is normal.

Mr. Matthews noted that prompt pay continues to improve. The general, federal fund and special revenue funds are as anticipated. Mr. Pattison complimented the staff on those accomplishments.

Cash Flow Update

Mr. Matthews stated that there were anticipated concerns regarding cash flow. The unknown was when and how much. He stated that cash flow is strongly related to billing cycles. For example, payroll expenses are incurred on April 1. However, the April bill goes out on May 15th, and agencies have 30 days to pay. That frequently leads to a 75-day gap between expenditure and receipt of payment.

Mr. Matthews noted that staff has examined several different scenarios regarding payment terms. If the status quo 30-day pay terms continue, the most likely case June 30 cash flow scenario is a \$10 million cash shortfall. The best case would present a \$6.5 million shortfall, while the worst case presents a \$17 million shortfall.

Consideration was given to changing payment terms from 30 days to 10 days. If this were to occur, there would be a small cash shortfall (less than \$500,000) and a worse case shortfall of about \$3 million. He also noted that the committee will still need to consider a line of credit in the next General Assembly session and most likely a treasury loan at the end of this year.

After further discussion, Mr. Kucharski made a motion that the Finance & Audit Committee approve the change in customer payment terms for all funds from 30 days to 10 days past the VITA billing date. Dr. Miller seconded the motion. The motion was carried unanimously.

Indirect Costs Analysis

VITA's indirect costs for fiscal years 2003 – 2005 are composed of various expenses: security and support services, security, and finance and administrative services. Indirect costs between FY 2003 and FY 2004 remain constant. However, FY 2005 indicates an increase. The anticipated increase was due to additional overhead required to support the 90 transitioned agencies.

Savings Report

Mr. Matthews reported that there was no update to the Savings Report to this report.

2004-06 Biennial Budget Amendments Status

Mr. Matthews noted that the Governor's budget had included forgiveness of VITA's start-up treasury loan, however, the General Assembly vetoed this action twice. The Virginia Base Mapping Program was the only VITA budget item approved by the legislature in the amount of \$500,000. The decrease in General Fund (GF) allocations was partly due to a recommendation by the Joint Legislative Audit and Review Commission (JLARC) to the Senate Finance Committee that all VITA budget requests were inappropriate for GF funding. This means that all requests should be internal service fund dollars and should be charged back to agencies, including the repayment of the fiscal year 2005 Treasury loan for start-up funds.

Mr. Stewart noted that this action indicated a significant policy direction change. JLARC and the Governor each recommended start-up funds. The second veto action by the General Assembly delivered the clear message that they want all VITA services treated as internal services, charged to the agencies.

Mr. Stewart then noted that VITA projects, such as enterprise architecture, security, and project management are mandated, but not funded. He noted that project groups are in the process of developing rate structures, such as the new direct and indirect cost model for the enterprise architecture portfolio.

Mr. Stewart said that even though the Virginia Based Mapping and E-911 Services projects are funded, there will still be a shortfall. Base Mapping is being developed as a shared enterprise solution, with 18 agencies sharing the service to create a lower cost solution. The budget also omits funding for security mandates though the work is underway, including quantifying and performing risk assessment. In order to competently monitor threats of cyber attacks in real time, proactively rather than reactively, funding will be required. VITA is building a rate structure for this service and will present it to JLARC on August 1.

Mr. Stewart noted that the impact of repaying the fiscal year 2005 start-up loan will produce a significant impact on the agencies, particularly the small agencies. An aggregate rate structure is being developed and will be delivered to the agencies within 60 days. It will be implemented in fiscal year 2006, but likely be retroactive to June 2005.

Rates for New and Shared Services

Mr. Matthews announced that there are five new services that VITA is ready to implement, including three related to servers and two for electronic communications, including e-mail and Blackberry service. Committee approval is needed to then send to the full ITIB Board and JLARC.

Mr. Matthews explained that implementation of virtual servers allows VITA to partition and allocate server space to customers. He noted that this is a first example of how VITA can provide better service at a lower cost than if the agency bought its own server. The service is based on the user's operating system. SQL servers will be similarly partitioned and charged by usage.

Mr. Matthews noted that agencies have asked to buy both e-mail and Blackberry service from VITA. The rate structure is a per-device rate and allows customers to pick and choose their options.

Mr. Stewart noted that this service marks the beginning of implementing state-wide shared e-mail service, developing best practices. As more users participate, the rate will continue to decrease, and substantial cost savings will be realized.

Mr. Matthews noted the final rate change, which is a rate decrease. The GESI application for social service workers in local governments, through negotiation with the vendor, has been reduced from \$34 per user to \$24 per user.

After discussion, Mr. Kucharski made a motion that the ITIB Finance and Audit Committee approve the proposed rates for submission to the ITIB for approval at its April 2005 meeting, and subsequent submission to JLARC. Dr. Miller seconded the motion. The motion was carried unanimously.

Mr. Matthews then noted that staff is developing a plan for a shared services rate package for the June meeting, to include rates for services not funded by the General Assembly, such as security and project management. This reflects a necessary move out of direct bill and back to a shared services environment. This is needed to gain flexibility, particularly in the new services arena. Under this model, a service will be billed, not people/hardware.

Mr. Stewart noted that this shift fits the original plan for VITA. Direct billing was only intended as a transition strategy. A shared service rate structure will provide a higher level of services and give VITA flexibility needed for larger projects.

Internal Audit Report

Peggy Ward presented the following information to the committee.

2005 APA Performance Audit Actions Update

This is the first update on corrective audit action items. Of 15 recommendations, one has been completed and 14 are underway and considered on time. There have been no significant changes since February.

Ms. Ward stated that the APA report on Wireless E-911 was issued in March 2005 and had no findings.

2004 APA SAS 70 Audit Actions Update

This item relates to the VITA data center and guidance from Auditor of Public Accounts SAS 6=70 Audit Report, dated April 1, 2004. There was one finding and six items with four recommendations. The only overdue item was the development of configuration standards; its October 2004 target date for completion is now June 2005. Ms. Ward pointed out that the finding was of such significance it was included in the APA Statewide Single Audit Report issued March 2005.

Dr. Miller made the motion to approve the SAS 70 Audit Action Plan. Mr. Kucharski seconded the motion. The motion was carried unanimously.

Internal Audit Services Charter Update

Two language changes were added to this package. On p. 2, in the final sentence, the word "shall" was inserted. One other addition was made giving the internal audit staff full access to the Finance and Audit Committee and to the ITIB.

Mr. Kucharski made a motion that the ITIB Finance and Audit Committee approve the Internal Audit Services Charter. Dr. Miller seconded the motion. The motion was carried unanimously.

Internal Audit Services Draft Audit Plan

Ms. Ward noted that a risk-based audit plan is required by charter. Staff has met with each director to confirm information, develop risk factors and questions. Risk scores were developed using ten standard factors. Audits will be performed on a 3-year cycle, with some annual, biennial and triennial. The 2005 cycle is not an entire year; it runs from May 1-Oct. 31. Staff plans to revisit and revise as necessary in September, and present in November for 2006, the first full year cycle.

Ms. Ward explained that to execute the Audit Plan required a staff of four, including the Director position. Mr. Pattison inquired if resources were available. Mr. Stewart confirmed that resources are available.

Mr. Kucharski made a motion that the ITIB Finance and Audit Committee approve the Draft Audit Plan. Dr. Miller seconded the motion. The motion was carried unanimously.

Internal Audit Service Activities

Ms. Ward noted that a small purchase credit card audit will be completed in early May. The immediate risk assessment is complete, and the charter is 95% complete. The budget comp plan should be ready by June. VITA audit track support has been requested and should be ready by August.

Other Business

None

Public Comment

None

Adjourn

A motion was made by Mr. Pattison to adjourn. There being no further business, the committee meeting adjourned at 2:22 p.m.